HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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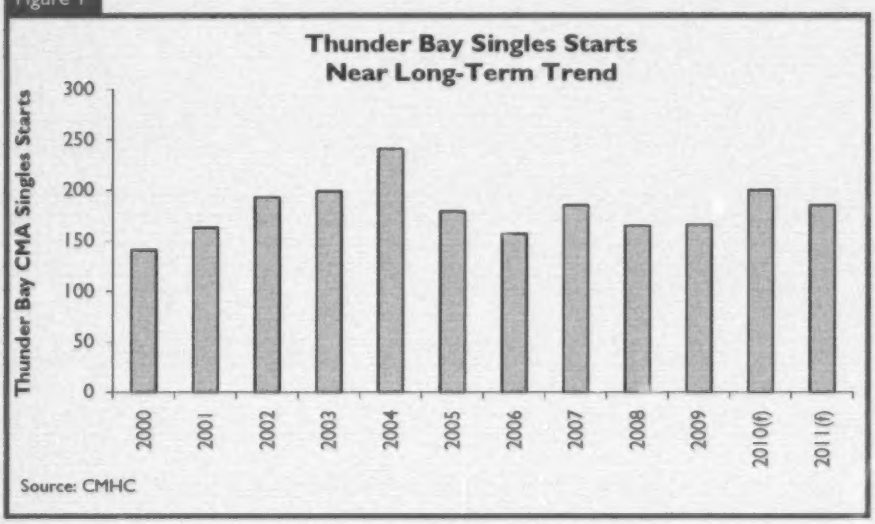
Market at a Glance

- Sales trended up strongly in early 2010 but have since flattened out. After a weaker 2009, existing home sales in Thunder Bay will conclude the year up slightly before falling next year as sales move back in step with demographic requirements.
- Average MLS® price will grow this year. This will precede a deceleration in the market next year as demand slows. Prices will follow suit to increase moderately in 2011.
- Mimicking provincial behaviour, single-detached housing starts will rise in 2010 before falling next year.
- Thunder Bay's total employment will increase modestly in 2010 and 2011.

Figure 1



Source: CMHC

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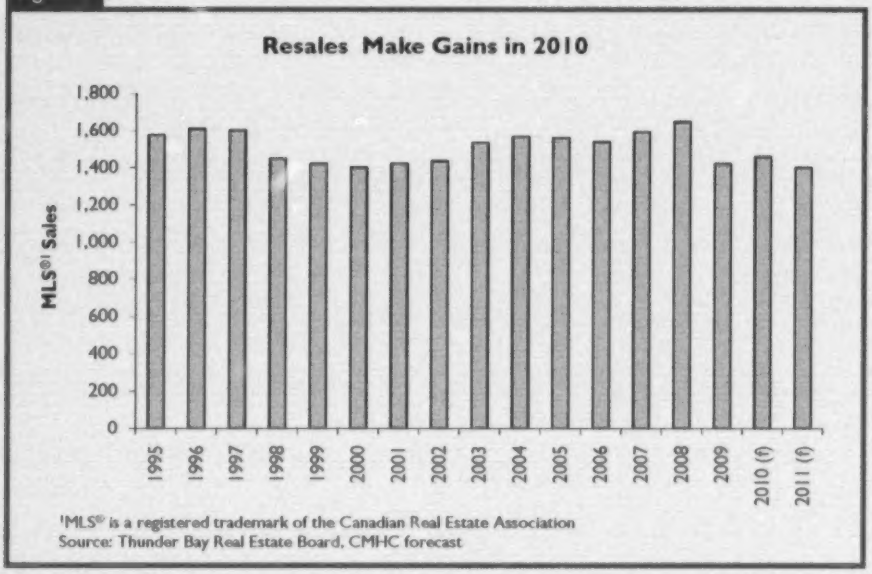
Figure 2



[1]MLS® is a registered trademark of the Canadian Real Estate Association
Source: Thunder Bay Real Estate Board, CMHC forecast

Resale Market

Resale market demand flattens out

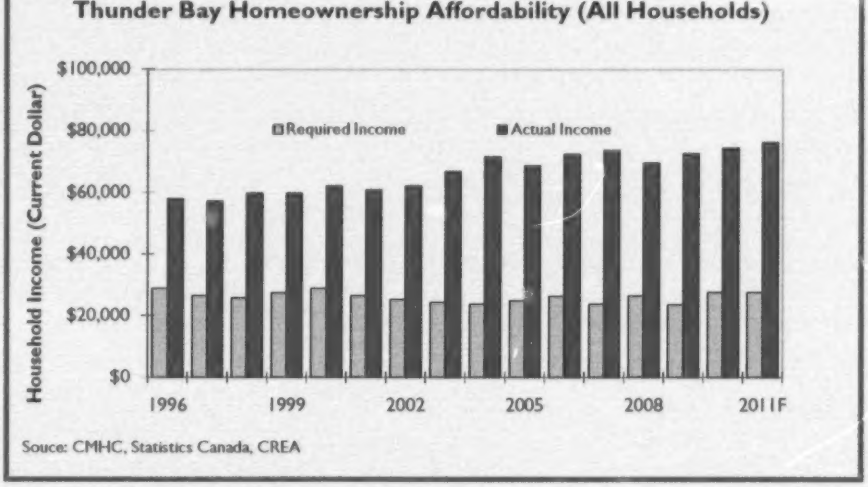
Existing home sales were trending up strongly in the first four months of 2010 due to favourable weather, forecast interest rate increases and the imminent introduction of the Harmonized Sales Tax. Sales then flattened out in the summer months and have since risen again modestly which will leave sales up 2.6 per cent in 2010 before retreating to 1,400 sales in 2011. A combination of both demand having been brought forward to late 2009 and early 2010, and the forecast of only a gradual economic recovery into 2011, will result in a dampening in resale market activity next year.

Active listings should increase modestly in 2011 as recent resale price appreciation incites homeowners to list. For the time being, active residential listings in Thunder Bay City are 20 per cent below 2009 levels as of September 30th. Some of the reasons behind this decline are that aging homeowners are staying in their homes longer as has become increasingly their tendency. Additionally, displaced forest products workers did not leave Thunder Bay in droves, as many expected, minimizing listings coming from that source. Finally, speculative building has not led to excess supply on the housing front. Thunder Bay could potentially see some additional listings coming from empty nesters selling their homes and moving into new condominiums that are expected to start next year.

The Thunder Bay average existing housing market will witness upward trending prices this year before flattening in 2011 as demand slows. Homeowners listing homes, especially in high-demand price ranges, are finding that homes sold above list price - on average, 22 per cent of the time - a strong indication of the intense competition for the limited number of listings. The limited supply in that preferred range of homes will continue moving forward into next year, keeping the price of resale homes above inflation levels.

Despite slow employment growth in Thunder Bay, income growth, measured by average weekly earnings, has been better than average. Average weekly earnings are forecast to grow 2.6 per cent this year and 2.3 per cent in 2011. A combination of modest interest rate declines and homeownership price increases next year will shrink the gap between

Figure 3



Souce: CMHC, Statistics Canada, CREA

required and actual income, impacting housing demand next year. Thus, affordability for first-time homebuyers thinking of entering the market will continue to remain encouraging.

New Home Market

New home market demand to moderate

Single-detached starts are poised to top 200 units this year on the strength of a solid third quarter and a better-than-expected fourth quarter. CMHC expects activity to fall back to 185 units in 2011 as the market comes more into line with long-term demographic requirements. CMHC expects a modest number of row, condominium and apartment starts in 2010 followed by a slightly stronger level in 2011. Developers of condominium projects are poised to begin construction on more units but will gauge their plans on the success of pre-selling activity over the next 12 months. A relatively tight rental market will continue to stir interest in geographically targeted, small scale rental projects that will result in some rental starts activity over the next 15 months.

Analysis of housing starts by subregion indicates a slight trend towards building in the outlying townships around the city limits. Between 1988 and 2009, approximately 17 per cent of single-detached homes were built in townships within the Census Metropolitan Area (CMA) but outside Thunder Bay City. In 2009 alone, 23 per cent were built in outlying areas. Thus far in 2010, the trend is similar to 2009. Oliver Paipoonge Township followed by Shuniah Township and Neebing Township have seen the most starts in this 22-year period outside the city proper. It is difficult to say emphatically that these numbers indicate a flight to the outlying reaches of the CMA. It is reasonable to assume that a yearning for larger lot sizes and the general uncongested nature of rural living would be key reasons to explain this movement to building new homes outside the City of Thunder Bay but still within the CMA.

Condos vying for buyers' attention

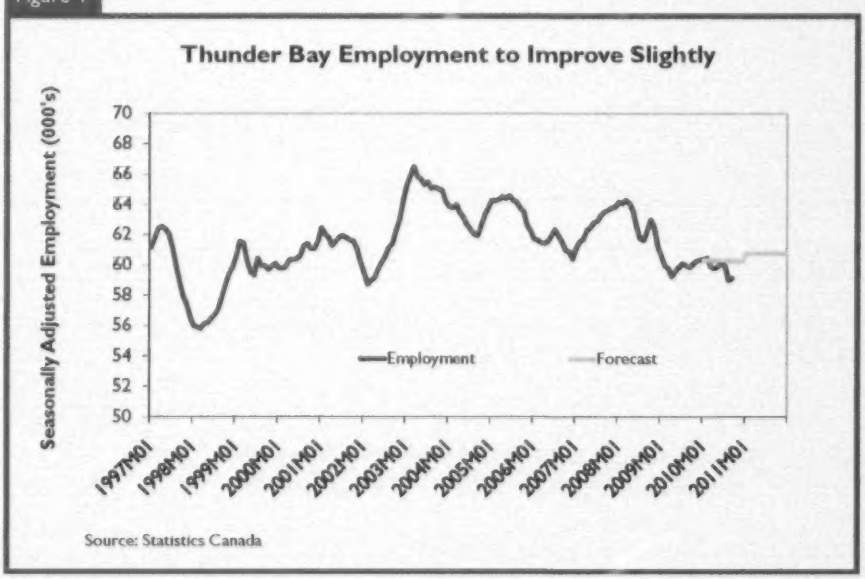
Thunder Bay expects to witness the commencement of one condominium project this year and two more in 2011. The tight resale market indicates that there is some pent-up demand, but pricing will be key for the success of these projects as empty nesters do not typically want to pay more for a condo than what they obtain from the sale of their existing home. As well, these developments will need a boost from market segments that have not traditionally sought condominium accommodation. In other words, other types of buyers will need to buy condominiums in Thunder Bay if all projects are to be built.

Economy

Modest economic growth

Since 2003, employment has decreased from its peak due primarily to the downturn in the forest products industry; however, overall employment will rise modestly in 2010 and again in 2011. The improvement in Thunder Bay employment will continue to be led by the goods producing sector, followed by the services producing sector of the economy. Watch for mining jobs and value-added forestry jobs to be key parts of the goods producing sector improvement. Although most jobs in the services industry are traditionally part-time, Thunder Bay is witnessing full-time employment growth.

Figure 4



Source: Statistics Canada

Pulp and newsprint price performance is expected to continue lending some stability to the forestry sector. As well, increasing activity in the mining sector will have a positive impact in Thunder Bay as price gains for gold, platinum, silver and base metals all benefit the largest regional centre in Northwestern Ontario. Companies often base their employees in Thunder Bay temporarily or permanently and rely on services and supplies located or sourced in Thunder Bay, thereby benefitting the city's economy and, by extension, the housing market.

In-migration to Thunder Bay to improve

Recent trends indicate that movement into Thunder Bay from Northwestern Ontario accounts for the bulk of the in-migration, while foreign in-migration accounts for the second largest number of migrants into the region. In-migration over our forecast period of 2009 to 2011 will have a positive impact on housing demand. The two age groups that will continue to grow are those aged 15-24 and 25-44, as Thunder Bay's efforts to grow their knowledge-based economy takes shape.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary Thunder Bay CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	1,593	1,649	1,423	1,460	2.6	1,400	-4.1
MLS® New Listings	2,631	2,839	3,193	3,129	-2.0	3,160	1.0
MLS® Average Price ($)	129,734	139,301	145,074	156,000	7.5	159,000	1.9
New Home Market							
Starts:							
Single-Detached	185	165	166	200	20.5	185	-7.5
Multiples	64	2	14	54	**	80	48.1
Semi-Detached	8	2	6	10	66.7	10	0.0
Row/Townhouse	24	0	4	0	n/a	0	n/a
Apartments	32	0	4	44	n/a	30	-31.8
Starts - Total	249	167	180	254	41.1	265	4.3
Average Price ($):							
Single-Detached	239,933	244,158	270,513	280,000	3.5	293,000	4.6
Median Price ($):							
Single-Detached	230,000	245,000	274,900	280,000	1.9	288,000	2.9
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.1	1.1	1.1	0.8	-	1.0	-
Rental Market							
October Vacancy Rate (%)	3.8	2.2	2.3	2.6	0.3	2.3	-0.3
Two-bedroom Average Rent (October) ($)	709	719	742	760	2.4	780	2.6
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	63,200	62,600	59,900	60,600	1.2	61,500	1.5
Employment Growth (%)	2.8	-0.9	-4.3	1.2	-	1.5	-
Unemployment rate (%)	6.8	6.0	8.4	8.0	-	7.7	-
Net Migration	-1,168	-452	-584	100	-117.1	100	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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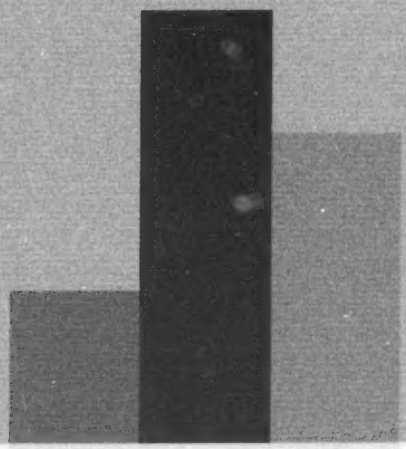

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